

Department of Economics
Colorado State University
EC442: International Economics II

Spring 2009

Professor: Dr. Ramaa Vasudevan

Office: C321 Clark

ramaa.vasudevan@colostate.edu

Office hours: T R 2-3pm (or by appointment)

Section 001	T-R	11.00a- 12.15 p	C363 Clarke
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Course Objectives

In this course we will study the theory, policy and political economy of the international organization of money and finance. The theoretical analysis - “open economy macroeconomics” - is based primarily on macroeconomic tools of analysis. It deals with balance of payment and exchange rate dynamics in an open world economy, as well as with the effectiveness (and constraints on) macroeconomic policy under conditions of globalization and floating exchange rates. We will investigate current policy issues (the U.S. trade deficit and the global imbalance, capital market liberalization, financial crises and global financial reform).

Class expectations

1. You are required to read the syllabus and to make yourself aware of all the requirements and deadlines associated with this course.
2. You are expected to read the assigned material from the textbook before coming to class. This class is meant to be participatory. Doing the readings before coming to class provides a basis of knowledge for class discussions.
3. Attend class. If you do not attend class you are responsible for what was done in class.
4. Assignments are due at the beginning of class on the assigned day. Late assignments will be penalized.
5. Contact me if you are ill or have an official university commitment that prevents you from being in class for a test or when some other assignment is due. Unless it is absolutely impossible you should notify me before rather than after you miss class or handing in an assignment. Written documentation is typically required for an excused absence.
6. Behave with honesty and integrity.
7. I should be expected to behave respectfully toward you and you should be expected to behave in the same way toward me and your fellow students
8. Come and talk to me if you are having problems with the class. The chances that I will be able to help are greater the sooner you come and talk to me.

Academic Misconduct

Academic misconduct like cheating, plagiarism, etc., will be taken very seriously in this course, and can lead to an overall F grade. For more details about university policies relating to academic misconduct see <http://www.catalog.colostate.edu/front/policies.aspx>

Accommodation for Disabilities

Requests for accommodation to disabilities should be made at the beginning of the semester after going through the Resources for Disabled Students (RDS). For more information see <http://rds.colostate.edu/index.asp>

Course Requirements and Grades

1. Class Exercises: These are aimed at helping you come to grips with the material
2. Assignments: There will be two take home assignments (The dates are given below in the course outline)
3. A mid term exam: mixed format
4. A group presentation on a current issues or policy topic. I will post a sign up for the presentation later during the course of the semester
5. Final Exam (non cumulative): This will be short essay type

Two Assignments:	150 (75*2)
Mid term Exam:	100
Final Exam:	100
Group presentation:	50
Final Exam:	100
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Total	500

Grades will be assigned according to a straight scale*:

A	450-500 points
B	400-449 points
C	350-399 points
D	300-349 points
F	< 299 points

* I reserve the right to alter the grading scale from what is indicated above if I deem it necessary, and to assign +/- grades at my discretion on the margins of these ranges.

Required text

The following text has been ordered at the CSU book store:

Appleyard, Field and Cobb *International Economics Sixth Edition*. (AFC).

B. Eichengreen, *Globalizing Capital* (GC) I recommend that you start reading this book during the spring break.

Other readings are articles and book chapters as set out in the Course Outline below. These will be available either as reserves or on RAMCT. Apart from these I will post a few articles related to current issues of relevance to the course on RAMCT

Course Outline (Subject to Change)

Introduction to the Course

Jan 20: The international economy

Balance of payments and the Market for Foreign Exchange

Jan 22, Jan 27: Elements of Balance of Payments

AFC, Chapter 19

W. Milberg, *Is the Sky falling? Questioning the Conventional Wisdom on the U.S. Trade and Budget Deficits Challenge* Nov-Dec 2007

Jan 29, Feb 3: Foreign Exchange Markets

AFC, Ch 20

G. Hopper, What determines Exchange rates: Economic factors or Market sentiments? *Business Review, Federal Reserve Bank of Philadelphia*, September/October 1997, pp. 17-29

Feb 5: International Financial Markets and Instruments

AFC, Ch 21

Assignment

Balance of Payments Adjustment

Feb 10 Monetary Approach

AFC ch22

Feb 12: Portfolio balance Approach

AFC ch22

Feb 17, Feb 19: Balance of Payments and Price Adjustment

AFC Ch 23

Feb 24, Feb 26: Balance of Payments and Income Adjustment

AFC Ch 24

Mar 3, Mar 5: Fixed Exchange rates

AFC Ch. 25

Mar 10: **Mid term Exam (in class)**

Mar 12: Flexible Exchange rates

AFC Ch. 26

SPRING BREAK!

Macroeconomic Policy in an Open Economy

Mar 24: Flexible Exchange rates

AFC Ch. 26

Mar 26, Mar 31: Aggregate Output and prices

AFC Ch 27

Wynne Godley, et al., "The US and its Creditors, . Levy Economics Institute, Strategic Analysis 2005 (www.levy.org.)

History and Institutions

Apr 2: International Gold Standard

GC Ch 2 and 3

Apr 7: Bretton Woods and After

GC Ch 4 and 5

Assignment due

Policy and Issues in International Economics

Apr 9, Apr 14: Fixed v/s flexible exchange rates

AFC Ch 28

Ralph Bryant, Ch. 10, "Interdependence and National Economic Policy: Alternative Paradigms," in Ralph Bryant, Money and Monetary Policy (Brookings Institution, 1980)

Apr 16, Apr 21: Financial Liberalization and Global capital Flows

Ocampo, Kregel and Griffith Jones *International Finance and Development* (2007)
Overview and Ch I

Maurice Obstfeld, "The Global Capital Market: Benefactor or Menace?" *Journal of Economic Perspectives* 12(4): 9-30, 1998.

Apr 23, Apr 28: Currency crisis in developing countries

Frederic Mishkin, "The Causes and Propagation of Financial Instability," Federal Reserve Bank of Kansas City Symposium "Maintaining Financial Stability in a Global Economy", Aug. 28-30, 1997.

Andrew Crockett, "Why is Financial Stability a Goal of Public Policy?" Federal Reserve Bank of Kansas City Symposium "Maintaining Financial Stability in a Global Economy", Aug. 28-30, 1997.

Ilene Grabel, "Predicting financial crisis: Astronomy or astrology?" *Eastern Economics Journal* 29(2): 243-58, 2003.

May 5: Averting Currency Crisis

Ilene Grabel, "Averting Crisis? Assessing Measures to Manage Financial Integration in Emerging Economies." *Cambridge Journal of Economics* 27(3): 317-36, 2003.

Kristin Forbes, "Capital Controls: Mud in the Wheels of Market Efficiency." *Cato Journal* 25(1): 153 – 66, 2005.

Dani Rodrik, Who needs capital account convertibility

Apr 30: Global Imbalances and the Current credit crisis

Wynne Godley, et al., "Can the Global Imbalances continue? "Levy Economics Institute, Strategic Analysis, September 2006. (www.levy.org.)

Ronald Mckinnon, The US Current Account Deficits and the Dollar Standards Sustainability: A monetary Approach, CES ifo Forum 2007

N. Roubini and Brad Setser, The sustainability of the US ciurrent account imbalance, CESifo Forum 2005

May 7: Reform of the International Financial System

Darista J “The Role of the International Monetary System in Financialization” in G Epstein edited *Financialization and the World Economy* (2005) Edward Elgar

J Eatwell and L. Taylor, “A World Financial Authority” in J Eatwell and L Taylor ed *International Capital Markets* (2002) Oxford University Press

B. Herman Global Trade and Financial Governance together, *Challenge* 2008

Final exam

May 12 : 9.10-11.10 am